



**INQUILAB**

# Value for Money

For the year ended 31 March 2017



Co-operative & Community Benefit Societies Act 2014

No. 25733R

Registered Social Landlord

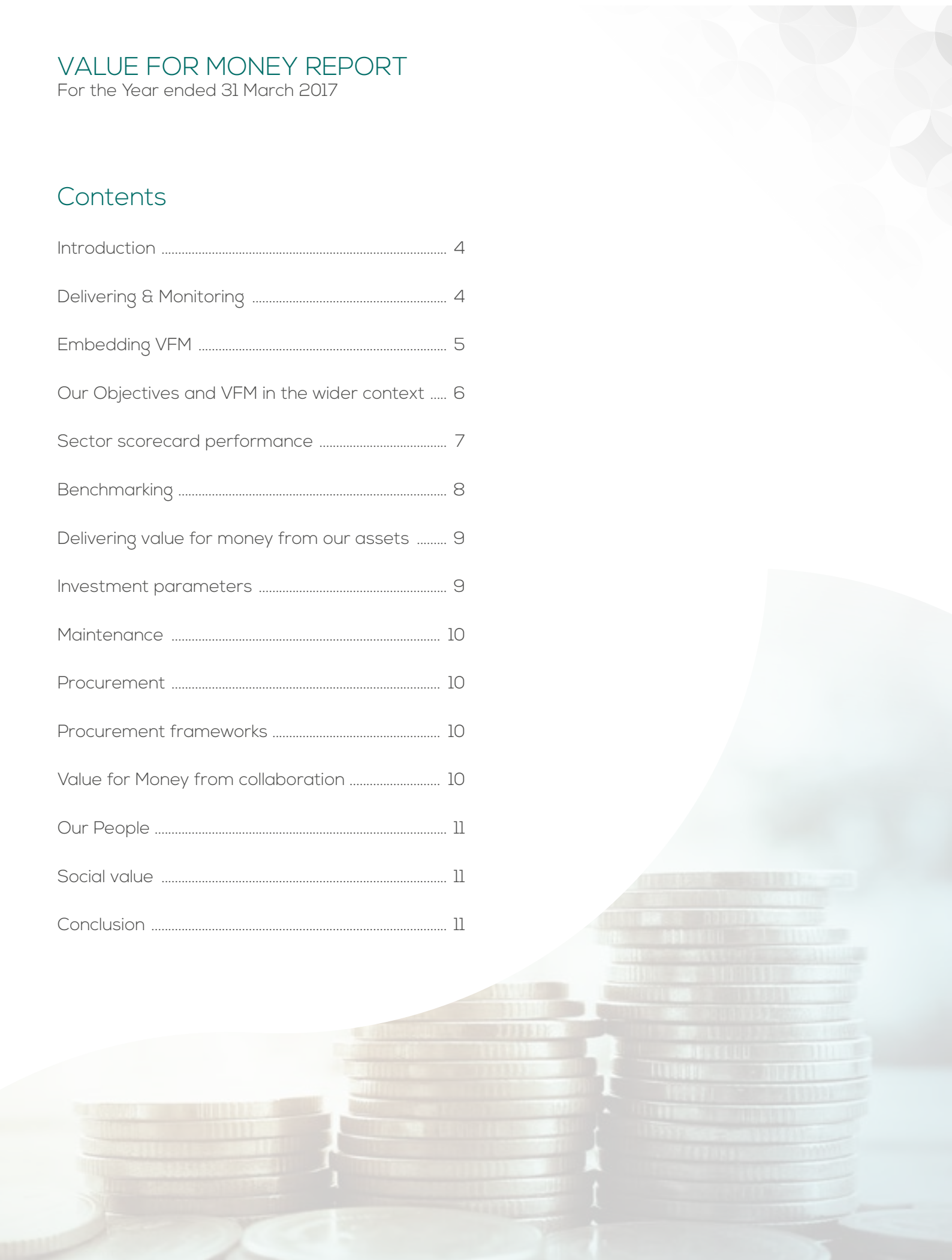
No. LH3728

# VALUE FOR MONEY REPORT

For the Year ended 31 March 2017

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## Introduction

For Inquilab VfM is about making the best use of available resources to plan, manage and deliver effective services to the residents and communities we serve.

VfM also includes planning our operations, finances, property maintenance and development programmes to deliver high quality homes and services at the right value.

By value, we mean providing appropriate homes and services for our residents which contribute to improving their wellbeing and quality of life.

This report sets out how we met our strategic objectives and achieved our value for money goals in 2016/17.

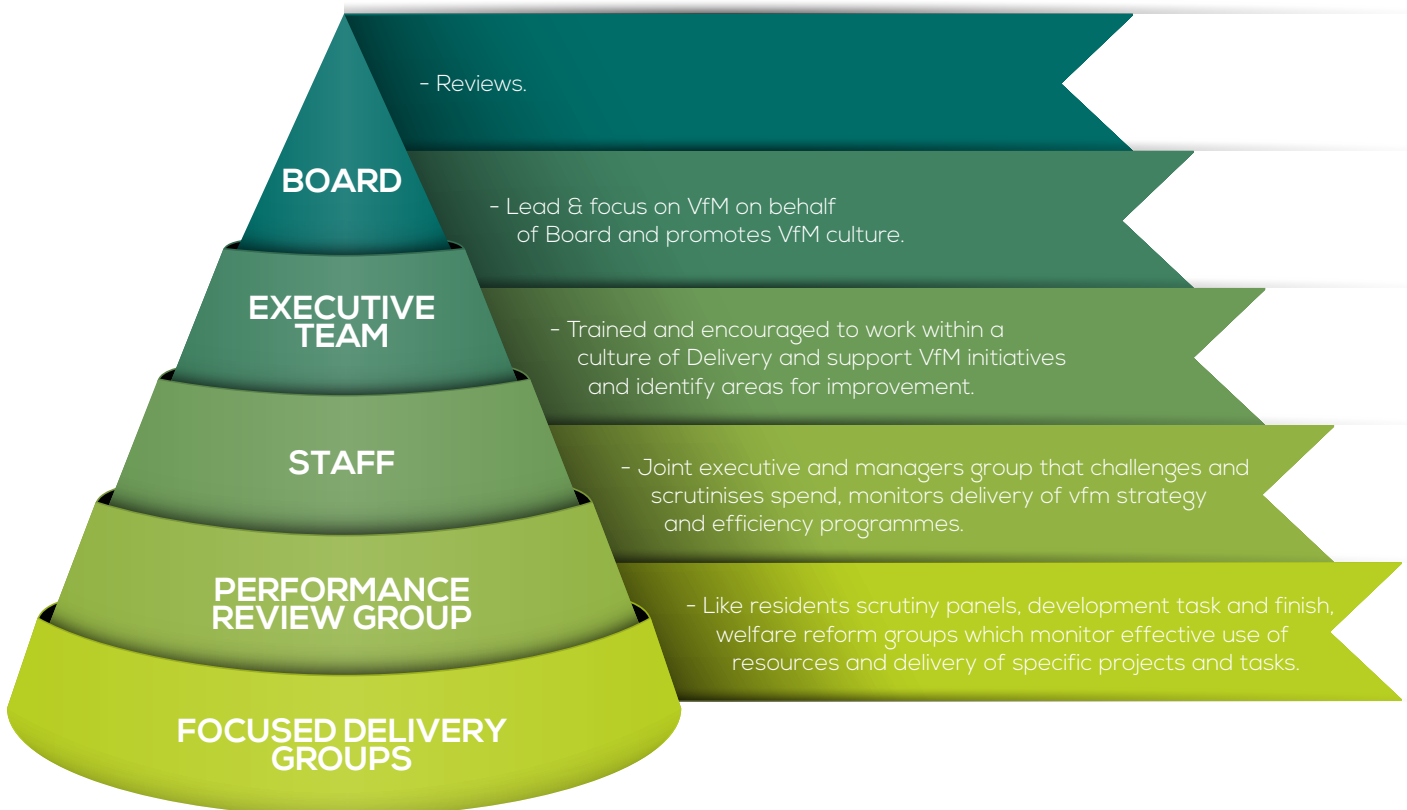
## Delivering and Monitoring

Ownership and delivering value for money is a shared purpose across the organisation with the Board providing oversight within a VfM framework. The framework sets out the overall objectives and strategies which are updated annually.

Guidance and review of the our VfM framework and strategy is provided by the Board through regularly scrutiny and oversight of reports, documents, policies, delivery of efficiency programmes and are supported by the whole business and our residents to drive our VfM agenda.

The executives are responsible for steering, implementing and reporting on VfM progress and make sure that we continue to improve performance across the organisation.

The interrelationship and responsibilities of the various teams and governing body of the organisation in relation to monitoring and delivering VfM is best illustrated by the diagram below:



## Embedding VfM

The following controls provide oversight and bring rigour to the delivery of value for money:



## Our Objectives and VfM in the wider context

With significant challenges within the housing sector our Corporate Plan 'Building a Better Future' was set in a very different context to previous plans. These included the housing crisis, government emphasis on home ownership, welfare reform and annual rent reduction of 1%. 'Building a Better Future' is focused on three core objectives of

improving customer experience, investing in homes and communities and strengthening our business. Our focus on these objectives will enable us to deal with these challenges whilst also taking advantage of the opportunities. The core objectives and some of the measures we monitor within the VfM framework are summarised below:

KEY OBJECTIVES	VfM MEASURES
<b>Improving the customer experience: with good reliable services and assisting our residents to be more independent and self-serve.</b>	Customer satisfaction with cleaning & gardening
	Customer satisfaction with complaints resolution
	Satisfaction with repairs and maintenance
<b>Investing in homes and communities: reducing costs, improving operating margin and using increased capacity to build more homes:</b>	Delivery of new homes
	Cost per property
	Asset management NPV
	Right first time repairs
	100% stock meeting DHS
<b>Strengthening our business in our finances, people and governance</b>	Loan covenants (Interest Cover & Gearing)
	Maintain Investor in People gold status
	Maintain V1 GI rating
	Rent collection and arrears percentage

Inquilab recognises that customer expectations are continuously changing and we have updated our processes to adapt to these changes. Whilst some tenants may prefer digitally enhanced participation we also recognise others expect a degree of personal contact when required.

Our Corporate Plan 'Building a Better Future' is about:

**Improving the customer experience** by assisting our residents to be more independent and self-serve. We set targets of achieving:

- 90% customer satisfaction with cleaning & gardening and achieved 77%
- 90% customer satisfaction with complaints resolution and achieved 70%
- 90%; satisfaction with repairs and maintenance and achieved 83%
- 30%; customer electing to communicate with us by email and achieved 34%.

**Investing in homes and communities** by reducing costs, improving operating margin and using increased capacity to improve more of our existing homes:

- Maintain a 30-year stock investment plan, aligned with the business
- Saved £38k on major works during the year
- During the year, we replaced 49 boilers, 30 kitchens, 44 bathrooms and 41 homes had new windows and doors installed.

**Strengthening our business** in our finance, people and governance so that:

- We maintain our financial robustness
- Staff have the right tools and skills to deliver
- Board members have the right skills
- Staff say Inquilab is a good employer.

Our targets relating to operating margin and costs per unit were met. To meet these targets, we undertook a complete review of processes and how the key services were being delivered. The reviews and the move to online service delivery led to savings on staffing and corporate overhead costs of £130k.

## Sector scorecard performance

Our headline cost per unit reduced to £3,523 for the year to March 2017 compared to the previous year's figure of £3,873. The overall cost per unit (excluding major repairs) reduced by 3.15% in the year to March 2017.

BUSINESS HEALTH	2016/17	2015/16	PEER GROUP 2015/16	
<b>OPERATING MARGIN – TOTAL</b>	44%	43%	30%	We've shown year on year improvement in operating margin. Performance has been consistently above the peer group median. Improved performance shows the benefit of the 2020 Vision efficiency programme. This improvement is within our underlying social housing business. One of our internal parameters requires us to meet interest costs from core underlying business, we continue to achieve this with some headroom.
<b>OPERATING MARGIN – SOCIAL HOUSING</b>	46%	44%	34%	
<b>EBITDA-MRI</b>	209%	193%	204%	

OPERATING EFFICIENCY	2016/17	2015/16	PEER GROUP 2015/16	
<b>SOCIAL HOUSING COST PER UNIT (CPU)</b>	£3,523	£3,873	£4,130	Overall, we have achieved an 9% reduction in unit costs and are 15% below our peer group. We perform well in housing management and major work, but as previously noted responsive repairs remains high. Whilst we have been reducing costs we would expect to see further efficiencies coming through from 2019.
<b>HOUSING MANAGEMENT CPU</b>	£744	£859	£1,018	
<b>SERVICE CHARGE CPU</b>	£513	£491	£484	
<b>MAINTENANCE CPU</b>	£1,315	£1,338	£1,238	
<b>MAJOR REPAIRS CPU</b>	£785	£1,046	£812	
<b>OTHER SOCIAL HOUSING CPU</b>	£165	£139	£251	
<b>OVERHEADS AS % OF TURNOVER</b>	14.39%	14.27%	13.55%	Remains within our internal target but above the peer group median.

Inquilab has seen a continuous reduction in the expenditure on reactive maintenance, which has decreased by £20k following a review of the repairs contract. Historically expenditure has been high and we are beginning to see an improvement in the ratio of responsive repairs to planned maintenance spend.

Our headline costs are also improving as we compare these to our peers. We are in the upper quartile for void losses but are aware that our reactive maintenance and estate service costs are slightly more expensive compared to our peer group, however we have put in place cost reducing measures. We expect to see the benefits of our improvement initiatives come through in 2017/18.

## Benchmarking

We make use of both the Housemark benchmarking and the Sector Scorecard ratios. Housemark applies a certain methodology for determining unit costs however the Sector scorecard figures can be extracted straight from the financial statements. Both methods are valid albeit we are not able to compare across the two data sets. We use benchmarking as an indicator of our performance against a

peer group with up to 7,500 homes operating within London & the South East and to pick up trends in our performance. Although both sets of benchmarking are a year behind our financial reporting they still provide an effective comparison of performance against our peers.

2016/17	2015/16	HOUSEMARK TOP QUARTILE 2015/16	PERFORMANCE INDICATOR
0.16%	0.39%	0.57%	Void rent loss (% of rent & service charges)
4.71%	4.84%	3.78%	Current arrears (% rent & service charges)
101.49%	100.54%	100.63%	Rent collection (% rent & service charges)
100%	100%	100%	Gas safety (%with gas safety certificate)
19	21	25	Number of days to let a property (all voids)
3.30	3.16	3.60	Annual number of repairs per property
83%	78%	78%	Residents satisfied with the repairs and maintenance service overall
78%	78%	83%	Overall satisfaction with service provided
83%	83%	81%	Satisfaction rents represent VfM



## Delivering value for money from our assets

We have continued to apply our approved methodology for understanding our assets, establishing their return and making informed decisions on how we can then create more capacity to build new homes.

- We own and manage 1253 homes all of which are dedicated to social housing activities
- All our homes provide general needs, shared ownership or supported housing accommodation.

We calculate the return on social housing assets using the surplus from social housing activities for the year as a

percentage of the gross cost at the start of the year. The gross cost of our social housing properties is the build cost plus capital improvements.

As at 31 March 2017, the gross cost of those homes was £161m (31 March 2016: £161m). The amount we generated from the social housing activities represents total income (including rents and service charges) less the cost of running the activities (including the management and maintenance). We generated a surplus before interest costs of £4.41m (2016: £4.19m). Over the last five years we have improved the return on our assets as we've improved our surplus and maintained our housing asset base.

RETURN ON ASSETS	GENERAL NEEDS %	SHARED OWNERSHIP %
2017	2.67%	4.20%
2016	2.52%	4.32%
2015	2.33%	3.86%
2014	2.10%	3.40%
2013	2.11%	3.15%

A core principle of the Asset Management Strategy is our commitment to creating successful communities by investing in our assets and their environment which will ensure that our neighbourhoods are places in which people choose to live. The strategy acts as the framework within which decisions on investment, remodelling and disposal are made in relation to the asset base. Key measures of success include improved NPV and the achievement of KPI quality targets relating to our asset base.

We maintain a 30-year stock investment plan, aligned with the business plan, with regular reviews of priorities and re-alignment of funding to meet the needs of the asset base

and of our customers. To ensure that we achieve value for money for planned maintenance works, we continue to benchmark unit costs across planned component replacements. Of those components that could be directly compared we saved £38k during the year. We will continue to undertake such benchmarking in future to ensure that our delivery routes remain competitive.

During the year, we spent over £961k replacing components in our tenanted properties.

## Investment parameters

Investment parameters are set annually by Board. They are a vital element of our control framework and guide us on which schemes we choose to invest in. There are some occasions however when we may choose to progress a scheme not meeting our criteria, recognising the need to balance our social objectives against ensuring financial returns.

## Maintenance

Asset management continues to challenge how we deliver services to improve value for money but still maintain quality and satisfaction.

In April 2016, we reviewed the way we delivered our repairs services moving away from three multi-contractors to one main contractor. The aim was to bring consistency and clarity of response across a range of repair requests.

## Procurement

We operate a procurement function which continually looks to remove waste and redesign offers ahead of tendering. We are tendering in a rising and uncertain market. Bidders are more selective of which opportunities to target. We've been shaping individual strategies to ensure we attract competition and drive out costs.

## Procurement frameworks

Inquilab is part of the South-East Consortium (SEC). Value for money is delivered by collaboratively tendering new contracts, and actively encourages innovation and new ways of working with contractors with the mutual aim of improving efficiencies.

## Value for Money from collaboration

Over the past year Inquilab has been working on collaborative opportunities with BME London Landlords, a group of fourteen housing associations. Members of this group range in size from 185 homes to 1,500 homes with many providing specialist management services to mainstream HAs. The group has laid the foundations for collaborative working as well as identifying opportunities for joint working. The group is now beginning to deliver these projects, and realise value for money.

The aim of our collaboration has been threefold:

- Achieve financial savings and deliver enhanced value for money for residents, communities and organisations
- Share best practice amongst the group and thereby increase productivity of staff and organisation as a whole
- Provide opportunities for residents to access services, such as employment support, that organisations would not otherwise be able to deliver alone due to high upfront cost and risk.

Most of the housing associations in the collaboration group are growing organisations, who are increasing their presence through developing houses or acquiring more homes. All of them are striving to deliver high quality services but due to their size, the majority face resource constraints and limits

The outcomes were:

- Repairs satisfaction improved to 83% throughout the year and was consistently higher than 2015/16
- Reduction in the number of call back orders
- Responsive repairs spend down on budget by £48k.

Our actions have included:

- Reviewing our Procurement Strategy and Procurement Policy to include new legislative changes
- Stripping out waste
- Ensuring packages of works achieve better value.

on their ability to borrow money to fund these services. However, it is on this basis that embarking on joint working projects, associations are able to increase their ability to deliver greater value for money.

BME London Landlords identified three areas for collaboration to achieve its objectives:

- Joint Procurement
- Employment
- Learning and Development.

For the joint procurement, the group has identified two projects; utilities and legal services. The utilities procurement for electricity and gas is expected to yield savings in the region of 5% - 10%, however, it is still early days for the savings to be quantified. As the current energy contracts for members come up for renewal and more organisations purchase utilities together, the collective buying power will increase and thereby the group will be able to achieve further savings.

The group has joined a legal consortium called Housing Association Legal Alliance (HALA). Whilst this has had an upfront annual membership cost HALA is likely to achieve savings on legal fees of up to 30% and a potential of more fixed fee work which will provide more certainty for budgeting. Furthermore, the consortium offers training

sessions as part of the membership, and these sessions help in upskilling staff on legal matters. It also allows staff to be kept up to date with any legal changes.

The group is in the process of offering an employment programme to residents. Whilst this initiative is still in the development phase the programme will enable the group to collaborate as a team and provide access to employment support, guidance and opportunities that enable residents to maximise their potential. It is envisaged that the employment programme will offer a holistic and personalised approach that is able to meet the varying needs of our diverse communities and client groups than other services on the market.

## Our People

Improving efficiency and delivering better value for money is well embedded in our culture. The Investors in People framework supports us to achieve our goals. Our Investor in People gold accreditation runs through to 2019.

We continue to bring high quality training to our staff. Although we didn't achieve our target of 5 days per employee for 2016/17 overall sickness was 5.25 days. This is upper quartile performance compared to our peer group who average 7.25 days. We monitor sickness absence and voluntary staff turnover at Board and through the Remunerations Committee. We carry out

informal and formal sickness absence reviews when staff reach absence triggers. We support staff on long term sickness with referrals to occupational health and help them with phased return to work plans.

Our staff turnover is 33%. This compares to 35% in 2015/16 and is lower quartile compared to our peer group. The number of staff has gradually reduced over the last two years as we become more efficient in delivering our work. Where teams have increased, this is linked to value for money objectives. We are seeking to fund our Community Development work through grants.

## Social value

In fast changing and uncertain times we are reaching out to give support and are making a real difference to people's lives and communities. Our work has been focused on three themed priorities:

- Helping tenants find jobs
- Financial inclusion support
- Employment initiatives.

We are seeing some good results which we will be measuring in 2017/18 in an operating environment which continues to be challenging.

## Conclusion

We remain committed to delivering ever better value for money. We are also committed to maintaining strong resident engagement to ensure we provide the right services as efficiently and effectively as we can.

Through 2017/18 we will continue to improve value for money delivering the following priorities:

- Continue to drive down cost through our programme of delivering recurring savings
- Continue to push forward with our digital enterprise agenda giving residents more flexibility and encourage self-service.



**INQUILAB**

Inquilab Housing Association

Unit 3

8 Kew Bridge Road

Brentford TW8 0FJ

Tel: 0208 607 7777

Email: [customerservices@inquilabha.org](mailto:customerservices@inquilabha.org)

[www.inquilabha.org](http://www.inquilabha.org)